MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2021/2022

BME1024 – INTRODUCTORY MACROECONOMICS

(All sections/Groups)

9 AUGUST 2022
9:00 a.m.-11:00 a.m.
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 2 pages with 4 questions.
2. Attempt ALL questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

(a) Why do economists consider only final goods and services when measuring GDP for an economy? (10 marks)

(b) Explain what is full employment and why the rate of unemployment is not zero. (10 marks)

(c) Explain what happens to inflation during the business cycle. (5 marks)

(Total: 25 marks)

QUESTION 2

(a) If aggregate planned expenditure exceeds real GDP, then real GDP will increase. Do you agree? Explain. (5 marks)

(b) If the slope of the AE curve is 0.75, determine the size of the multiplier. Calculate by how much does equilibrium aggregate expenditure increase for each of the following.
i. exports increase from $2.75 trillion to $3.25 trillion
ii. investment increases from $2.2 trillion to $3.3 trillion. (10 marks)

(c) Distinguish between the multiplier effect and the crowding-out effect through the aggregate demand curve. (10 marks)

(Total: 25 marks)

QUESTION 3

(a) A commercial bank can lend an amount equal to its excess reserves, meanwhile a commercial banking system can lend by a multiple of its excess reserves. Evaluate this statement. (5 marks)

(b) Graphically explain the difference between adaptive and rational expectations. (10 marks)

Continued ...

(c) Explain why the timing of fiscal policy could be more difficult compared to monetary policy. (10 marks)

(Total: 25 marks)

QUESTION 4

(a) Explain three determinants of exchange rate in the long run. (12 marks)

(b) Show the relationship between net exports and net foreign investment. Explain how net exports and net foreign investment are related. (13 marks)

(Total: 25 marks)

End of Paper